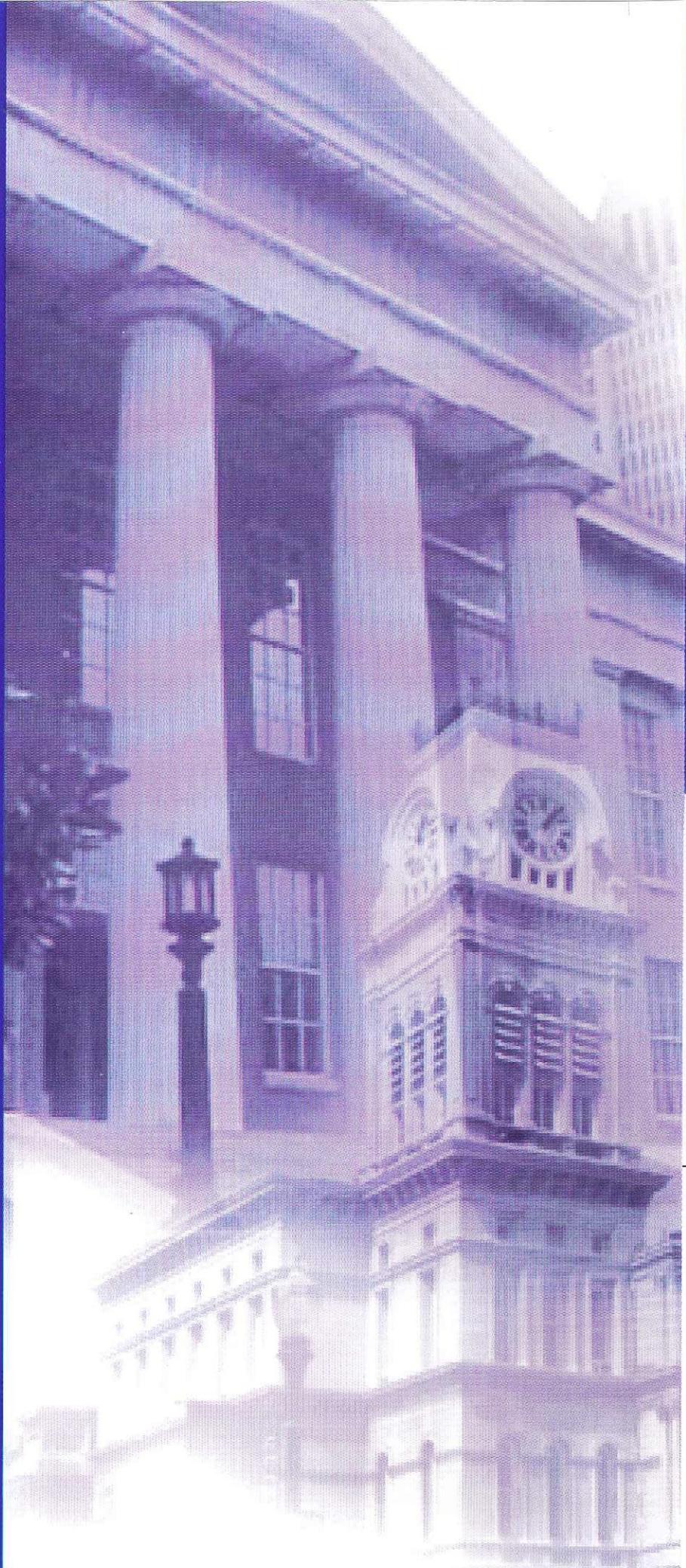




Greg Fischer
Mayor
Louisville Metro Council

The Office of Internal Audit provides independent, objective assurance and consulting services that adds value to and improves Louisville Metro Government.



Office of Internal Audit

Public Health and Wellness

Financial Operations

Report

Public Health and Wellness

Financial Operations

May 2011



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Executive Summary

PROJECT TITLE	
Public Health and Wellness - Financial Operations Review	
OBJECTIVE AND SCOPE	
<p>The objective was to obtain assurance that operational risks are adequately mitigated through the internal control structure. The primary focus of the review was the fiscal and operational administration of Public Health and Wellness' procurement and payroll activity. This included how activity is processed, recorded, and monitored.</p> <p>Testing included activity occurring during the fiscal year 2010 (July 2009 through June 2010) and the first quarter of fiscal year 2011 (July 2010 through September 2010). The details of the scope and methodology of the review are addressed in the Observations and Recommendations section of this report.</p>	
INTERNAL CONTROL ASSESSMENT	SECTION
Needs Improvement	Procurement
Needs Improvement	Payroll
RESULTS	
<p>Procurement. Examples of the issues impairing the effectiveness of the internal control structure for the administration of Public Health and Wellness' procurement activity include the following.</p> <ul style="list-style-type: none"> ➤ Activity for one supplier, which received more than \$10,000 during the fiscal year, was processed without any type of contractual agreement. ➤ The lack of adequate support documentation impaired the ability to verify compliance with contractual terms. ➤ Supplier payments were not processed within 30 working days as required by statutory law. ➤ Several suppliers were either not registered or not in good standing with the Louisville Metro Revenue Commission. <p>Payroll. Examples of the issues impairing the effectiveness of the internal control structure for the administration of Public Health and Wellness' payroll activity include the following.</p> <ul style="list-style-type: none"> ➤ Prior period adjustments were not adequately documented, which impacted the accuracy and integrity of payroll activity. ➤ There were timecard reports that were not signed by the employee or the supervisor. ➤ Monitoring and reconciliation of the payroll activity was not performed. 	



OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

GREG FISCHER
MAYOR

INGRAM L. QUICK, CIA, CFE
INTERIM DIRECTOR - CHIEF AUDIT EXECUTIVE

JIM KING
PRESIDENT METRO COUNCIL

Transmittal Letter

May 24, 2011

The Honorable Greg Fischer
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Audit of Public Health and Wellness' Financial Operations

Introduction

An audit of Louisville Metro's Department of Public Health and Wellness' financial operations was performed. The primary focus of the review was the operational and fiscal administration of the activity. This included how activity is processed, recorded, and monitored. The objective was to obtain assurance that risks are adequately mitigated through the internal control structure.

The audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

The procedures for the administration of Public Health and Wellness' payroll and procurement activity were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of the activity. Tests of sample data were performed on activity from fiscal year 2010 (July 2009 through June 2010) and the first quarter of fiscal year 2011 (July 2010 through September 2010). This included how activity is processed, recorded, monitored and reported. The details of the scope and methodology of the review areas are addressed in the Observations and Recommendations section of this report. The audit would not identify all issues because it was based on a selective review of data.

Opinion

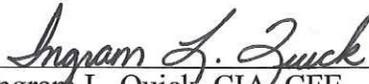
It is our opinion that the internal control structure for the administration of the Public Health and Wellness' procurement activity needs improvement, and the internal control structure for the administration of payroll activity needs improvement. The internal control rating is on page 6 of this report. The rating quantifies our opinion on internal controls, and identifies areas requiring corrective action. Opportunities to strengthen the internal control structure were noted.

- **Procurement.** Examples of the issues impairing the effectiveness of the internal control structure for the administration of Public Health and Wellness' procurement activity include the following.
 - Activity for one supplier, which received more than \$10,000 during the fiscal year, was processed without any type of contractual agreement.
 - The lack of adequate support documentation impaired the ability to verify compliance with contractual terms.
 - Supplier payments were not processed within 30 working days as required by statutory law.
 - Several suppliers were either not registered or not in good standing with the Louisville Metro Revenue Commission while conducting the audit.
- **Payroll.** Examples of the issues impairing the effectiveness of the internal control structure for the administration of Public Health and Wellness' payroll activity include the following.
 - Prior period adjustments were not adequately documented, which impacted the accuracy and integrity of payroll activity.
 - There were timecard reports that were not signed by the employee or the supervisor.
 - Monitoring and reconciliation of the payroll activity was not performed.

Corrective Action Plan

Representatives from Louisville Metro Public Health and Wellness have reviewed the results and are committed to addressing the issues noted. Louisville Metro Public Health and Wellness responded in collaboration with the Office of Management and Budget (OMB). OMB's responses / corrective action plans are included in this report in the Observations and Recommendations section. We will continue to work with Louisville Metro Public Health and Wellness and OMB to ensure the actions taken are effective to address the issues noted.

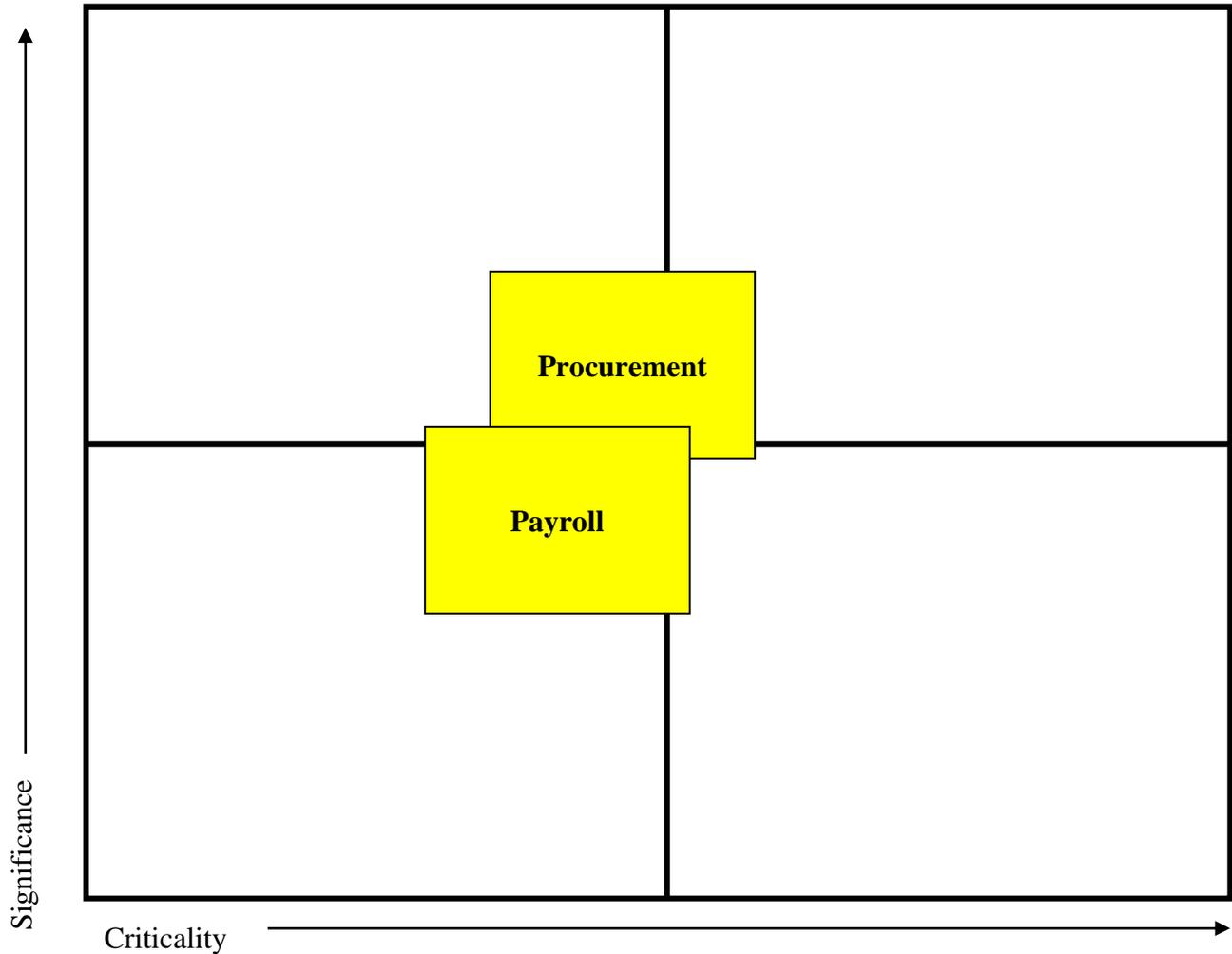
Sincerely,



Ingram L. Quick, CIA, CFE
Interim Director and Chief Audit Executive

cc: Director of Louisville Metro Public Health and Wellness
Assistant Director of Louisville Metro Public Health and Wellness
Louisville Metro Council Government Accountability and Ethics Committee
Louisville Metro External Auditors

Internal Control Rating



<u>Legend</u>			
<u>Criteria Issues</u>	Satisfactory Not likely to impact operations.	Needs Improvement Impact on operations likely contained.	Inadequate Impact on operations likely widespread or compounding.
Controls	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
Policy Compliance	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
Image	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
Corrective Action	May be necessary.	Prompt.	Immediate.

Background

The Louisville Metro Department of Public Health and Wellness provides health care services and educational programs to the citizens of Louisville Metro. Public Health and Wellness actively promotes the well-being and health of Metro's citizens through community wide office locations. Efforts to achieve these goals are supported through funding from Louisville Metro's general fund, fees for services rendered, and grants from the federal government and the Commonwealth of Kentucky.

For fiscal year 2010, Public Health and Wellness' payroll related expenditures were approximately \$16,116,000 and supplier payments were approximately \$7,254,000. During the first quarter of fiscal year 2011, Public Health and Wellness payroll related expenditures were approximately \$4,169,000 and supplier payments were approximately \$1,122,000. The supplier amount excludes payments for out of town travel and capital projects. Public Health and Wellness had approximately 339 positions during fiscal year 2010.

This was a scheduled audit.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit has not performed previous review of the Louisville Metro Department of Public Health and Wellness financial operations activity.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

An understanding of the internal control structure was obtained in order to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The review did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the review that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials / Action Plan

A draft report was issued to the Louisville Metro Department of Public Health and Wellness (Health) on April 25, 2011. An exit conference was held at the Public Health and Wellness' administrative offices on May 03, 2011. Attending were Jackie Richardson, Dr. Matt Zahn, Matt Rhoades representing Health; Stephanie Moore representing Office of Management and Budget, and Ingram Quick, Brittany Schaefer, and Patrick Crawford representing Internal Audit. Final audit results were discussed.

The views of Health officials were received on May 19, 2011 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

*“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or **no longer than** 30 days of receipt of the draft report.”*

Public Health and Wellness' response was provided within this required timeframe.

Observations and Recommendations

1) Procurement

Scope

Public Health and Wellness' procedures for administering procurement activity were reviewed through interviews with key personnel. The primary focus of the review was the operational and fiscal administration of the activity. This included assessing whether activity was processed, recorded, monitored, and reported accurately and appropriately. The objective was to obtain assurance that the risks are adequately mitigated through the internal control structure.

Tests of sample data were performed on transactions from fiscal year 2010 (July 2009 through June 2010) and the first quarter of Fiscal Year 2011 (July 2010 through September 2010). Procurement data was obtained from Louisville Metro's financial system. A sample of 25 transactions was judgmentally selected for review. Transactions related to out of town travel were excluded from this review.

In addition, all suppliers receiving more than \$10,000 from Public Health and Wellness during fiscal year 2010 were identified. Activity for these suppliers was reviewed to ensure it was in compliance with contractual requirements in the Louisville Metro procurement policies. The examination would not reveal all issues because it was based on a selective review of data.

Observations

Issues were noted with Public Health and Wellness' procurement activity. As a result, the effectiveness of the internal control structure is impaired and needs improvement. Opportunities noted to strengthen the controls are as follows:

- **Contractual Agreements.** Louisville Metro's procurement policies, which are based on state statutes, require the use of a contractual agreement whenever a supplier receives the aggregate amount of \$10,000 or more during the fiscal year.
 - The activity for one supplier, which received more than \$10,000 from Public Health and Wellness, was processed without any type of contractual agreement. Public Health and Wellness paid the supplier approximately \$16,380 during fiscal year 2010. This involved 41 invoices.
- **Contractual Documentation Issues.** The lack of adequate support documentation impaired the ability to verify compliance with contractual terms.
 - For three suppliers, the contract states the price of the goods or services will be the manufacturer's list price at the time of purchase. The manufacturer's price list at the time of purchase was not documented. Therefore, there was no way to determine if the amount charged was in accordance with the contractual terms.
- **Payment Timeliness.** Kentucky Revised Statutes require that Louisville Metro Government pay suppliers within thirty working days of the receipt of the invoice. Of the twenty-five invoices reviewed, six were not paid within the thirty day limit. The payment for the six invoices ranged from seven to fifty-one days after the limit.

- Public Health and Wellness policies do not require date stamping of invoices when received. The absence of a date stamp makes it difficult to determine the actual date the invoice was received, so the timeliness of payment cannot be determined with certainty. For invoices without date stamps, the invoice date was used to calculate timeliness. This may distort the payment time calculation.
- **Supplier's Revenue Commission Status.** Louisville Metro suppliers are required to register with the Revenue Commission and be in good standing. This helps ensure that suppliers doing business with Louisville Metro Government are paying applicable taxes and fees. Of the twenty-five Public Health and Wellness suppliers reviewed:
 - Six suppliers were not registered with the Revenue Commission at the time of the audit. This indicates the supplier had not made payments to the Revenue Commission as required.
 - One supplier was registered but not in good standing with the Revenue Commission at the time of the audit. This indicates that although the supplier is properly registered with the Revenue Commission, the proper forms have not been filed with the Revenue Commission as required.
- **Policies and Procedures.** Public Health and Wellness does not have documented internal policies and procedures for the administration of the procurement activity. Public Health and Wellness follows guidelines established by Louisville Metro Government's Purchasing policy. The absence of formally documented policies and procedures increases the risk of inconsistency in facilitating procurement activity. Further, the absence of written policies and procedures increases the risk that activity will not be processed as intended.

Recommendations

Appropriate Metro personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ Public Health and Wellness should comply with contractual threshold limits as stated in Louisville Metro's procurement policies. Public Health and Wellness procurement procedures should include guidance to ensure cumulative payment amounts are considered prior to the procurement of goods / services. This would require program managers to consult the Business Office prior to initiating procurement of goods / services from suppliers. This proactive approach would help ensure the activity is in compliance with contractual requirements. Additional training of personnel within Public Health and Wellness should also help ensure compliance with policy requirements.
- ✓ Activity processed using contracts in which the price terms are from a manufacturer's price list at the time of purchase should be properly documented. The documentation should include the price at the time the order was placed. This should be part of the supporting documentation with the payment document.
- ✓ As part of the payment approval process, appropriate personnel should thoroughly review invoices to ensure accuracy, appropriateness, and agreement to contractual terms. Supporting documentation should be explicit as to the services / work performed or goods provided. Enough documentation should be provided to allow

independent verification of expenditures to the contractual terms. This should be accomplished solely by reviewing the supporting documents.

- ✓ Care should be taken to ensure invoices are processed in a timely manner in compliance with State law. Any situations in which an invoice will not be paid within thirty working days, such as disputes with the supplier, should be properly documented.
- ✓ Public Health and Wellness should consider date stamping all invoices when received. This will allow determination of timeliness and identify areas where delays may be occurring. It may be beneficial to have all invoices come into one central location (e.g., Business Office) for date stamping and tracking. The invoices could then be distributed to the applicable Council District offices for review and approval.
- ✓ The Public Health and Wellness Business Office should request access to the Revenue Commission's internet based site that allows verification of potential suppliers. The registration status and standing of suppliers should be verified prior to the procurement of goods and services. The verification should be documented.
- ✓ A written internal policies and procedures manual should be developed. This manual should include sufficient detail for each job duty performed, copies of forms used and the policies followed in the processing of procurement activity. This internal policy and procedures manual should be distributed to all applicable personnel. In addition, training of key personnel will help ensure consistent adherence to the requirements. The internal policy and procedures should reflect the most current information and be updated periodically.

Public Health and Wellness Corrective Action Plan

Annually, we hold trainings with LMPHW program managers and other related staff on the procurement process. We invite the County Attorney's office and Metro Purchasing staff to assist with training and answer any questions staff may have. We will continue to stress the importance to adhering to the procurement policy with emphasis on following the specifications outlined in a contract and providing better supporting documentation.

At our April 2011 Executive Staff meeting, we informed supervisors to make sure invoices are date-stamped when delivered to their division. With the recent adoption of the IPM method, eventually, all invoices will be delivered to a central location and invoices will be date-stamped and paid in a timely manner.

We are currently in the process of centralizing our business office with OMB. During this transition, internal written policies and procedures will be well documented and communicated to appropriate staff to ensure adherence to policies and procedures.

2) Payroll

Scope

Public Health and Wellness' procedures for administering payroll were reviewed through interviews with key personnel. The primary focus of the review was the operational and fiscal administration of Public Health and Wellness' payroll activity. Examinations were performed to determine whether activity is complete, accurate, and in compliance with Metro Payroll and Timekeeping Policies. Documentation reviewed included payroll documents, official timecard records, Louisville Metro personnel policies, and PeopleSoft records.

The audit review period included fiscal year 2010 (July 2009 through June 2010) and the first quarter of fiscal year 2011 (July 2010 through September 2010). A sample of four pay periods was judgmentally selected for review. Personnel were selected from each of the pay periods to review the validity and accuracy of payroll.

Additional audit procedures included reviewing employee addresses and direct deposit bank account information. Also, activity for regular part-time employees was examined to verify proper contributions were paid to the retirement system when applicable. The review would not reveal all issues because it is based on a selective review of data.

Observations

Issues were noted with the Public Health and Wellness' payroll activity. As a result, the internal control structure is impaired and needs improvement. Opportunities noted to strengthen controls are as follows.

- **Prior Period Adjustments.** Public Health and Wellness employs the use of the PeopleSoft self-service function. Under the self-service function, an employee has the capability of entering time throughout the pay period and after the pay period closes. Entries made after the pay period closes are considered to be prior period adjustments. These can impact of the accuracy of the respective timecard reports if new reports are not run after adjustments are made (or if documentation for the adjustments is not maintained).
 - **Insufficient Documentation.** There were four cases in which the employee's pay data (e.g., number and type of hours) did not agree to the timecard reports. These were all due to prior period adjustments. Documentation of the prior period adjustments were not included with the timecard reports. This made it appear the timecard report, which is the official payroll record, was incorrect.
- **Timecard Report Signatures.** Louisville Metro policy requires that the timecard reports be signed by both the employee and their supervisor. The employee's signature indicates the time is reported accurately, and the supervisor's signature indicates the authorization to process the employee's payroll. The timecard report is the official record of the payroll activity. Issues were noted with the timecard signatures.
 - There were seven individual timecard reports that were not signed by the employee.

- There were thirteen timecard reports that were not signed by the supervisor.
- **Monitoring and Reconciliation.** The Public Health and Wellness Business Office does not perform monitoring and reconciliation of the payroll activity to ensure it is recorded accurately in the financial system. Payroll expense data is generated in the PeopleSoft system and automatically recorded in the financial system. The PeopleSoft payroll reports produced each pay period (i.e. check register, payroll register, expense distribution report, etc.) are not used for monitoring and reconciling activity.
 - **Time Reporting Code Error.** The PeopleSoft system is set up to separate employees into work groups, such as full time and part time employees. The work groups determine what type of time reporting code (e.g., REG, PPT) the PeopleSoft system will use to document the normal hours worked throughout a pay period.
 - There was one instance where an employee's hours worked were not applied to the proper time reporting code. Although the employee's job status changed from a part-time to full-time employee, the employee's work group was not changed. The employee's hours worked were applied to the time reporting code designated for a part-time employee even though the employee was listed in the PeopleSoft system as a full-time employee.

Recommendations

Appropriate Metro personnel should take corrective actions to address the issues noted. Specifics include the following.

- ✓ Prior period payroll adjustments should be properly documented. The documentation is needed so that any discrepancy between the timecard report and the actual pay is explained and justified. The Office of Management and Budget issued a directive in August 2010 requiring the generation of a new timecard report for any employee with a prior period adjustment. The timecard report with adjustments should be distributed for proper signature and maintained with the timecard reports for the effective period.
- ✓ Timecard reports should be signed by both the employee and the supervisor. Once approved, the timecard report should be returned to the Business Office in a timely manner (e.g., within one week). Supervisors should be accountable for reviewing and signing the timecard reports, and ensuring they are returned to the Business Office in a timely manner.
- ✓ A formal, documented payroll reconciliation process should be implemented. This should include the review of information contained on the PeopleSoft reports and verification of accurate postings to the financial system. Exceptions should be investigated and properly documented. In order to promote proper segregation of duties, an individual independent of the actual processing of activity should at least review the reconciliations.
- ✓ Appropriate Public Health and Wellness personnel should monitor the payroll reports to ensure expenses are posted to the proper financial coding in the financial system and the proper time reporting codes are used to apply each employee's hours worked.

Public Health and Wellness Corrective Action Plan

The prior period adjustment process is a concern for all Metro agencies. Currently, we are in communication with several Metro agencies that play a vital role in setting policy relating to prior period adjustments. The policy adopted will improve the process for all Metro agencies not just Public Health and Wellness. Internally, prior period adjustments will not be approved without proper supporting documentation. If an adjustment is approved, we will print a new timecard report and route it for appropriate signatures.

More emphasis will be given to ensure all required signatures are obtained to complete the payroll process.

A formal reconciliation process will be implemented immediately. We will ensure that the expense distribution report matches general ledger entries. Any discrepancies will be researched, corrected and well documented.

Written procedures for the payroll process will be documented for all corrective action items noted in this report.

Office of Internal Audit

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